



Testimony of Eric Gjede
Vice President of Public Policy, CBIA
Before the Finance, Revenue & Bonding Committee
Hartford, CT
March 31, 2022

**Testifying in support of
HB 5503: AN ACT CONCERNING THE BUSINESS OPERATING LOSS CARRY-OVER PERIOD**

Good afternoon, Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman and members of the Finance, Revenue & Bonding Committee. My name is Eric Gjede and I am vice president of public policy for CBIA, the Connecticut Business & Industry Association. CBIA is Connecticut's largest business organization, with thousands of member companies, small and large, representing a diverse range of industries from across the state. Ninety-five percent of our member companies are small businesses with less than one-hundred employees.

CBIA supports HB 5503

Net operating loss carry forwards permit a business suffering a loss in a certain year to deduct those losses on future tax filings. The ability to deduct operating losses is useful for emerging businesses and businesses with long developmental cycles before their products are ready for market.

Of the states with a corporate tax, Connecticut's net operating loss carry forward policy is among the least competitive in the nation. Most states allow

you to offset your losses by up to 80% of your tax liability over the course of up to 20 years. Connecticut allows annual offsets of only 50%, with only Pennsylvania's 40% being less competitive. While our allowed deduction percentage is what sets us apart from other states in terms of competitiveness, CBIA believes the committee's extension of the carry forward period is the best course of action as it would minimize the short-term revenue impact to the state.

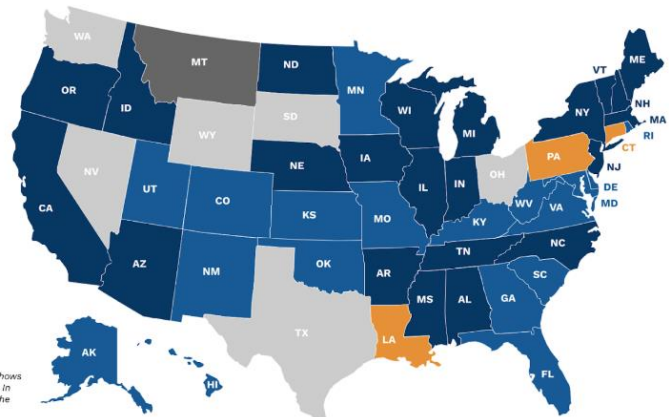
Connecticut employers, particularly small businesses, continue to face a multitude of pandemic-related challenges. Most saw operating costs increase due to supply chain issues and inflation, and an astounding 80% continue to face workforce issues. Our state's unemployment rate remains higher than the national average, and employers face looming tax increases in the coming months related to federal unemployment loans. On the

State Net Operating Loss (NOL) Carryforward Limits

Net Operating Loss (NOL) carryforwards permit a business suffering a loss in a certain year to deduct those losses on future tax returns. Most states don't limit the amount of income a business can offset with losses each year, or impose a 80% limit if the state conforms to federal law. However, **Connecticut, Louisiana, and Pennsylvania stand out because they impose much stricter limits** on the amount of taxable income that can be offset annually with losses that are carried forward (50%, 72%, and 40% of taxable income, respectively).

- No limit on amount of taxable income (indefinite)
- Limited to 80% of taxable income
- Limited to less than 80% of taxable income
- No corporate income tax
- Has unique rules, such as a dollar limit (MT)

Source: Thomson Reuters Checkpoint. Note: This map only shows percentage limits on taxable income for NOL carryforwards. In many states, NOL carryforward laws also impose limits on the number of years that losses can be carried forward.



bright side, smart, bipartisan fiscal policies put in place in 2017 and the influx of federal relief funds reduced the state's fiscal challenges. This created a unique, once in a generation opportunity to implement tax relief measures that will help cut the cost of living and the cost of doing business, make Connecticut more competitive, and boost our economy in ways that will benefit everyone.

HB 5503 will provide our corporate businesses with a little relief and will encourage businesses to invest and grow here in Connecticut.

We urge the committee to support HB 5503.